

**AUDITOR'S REPORT OF THE
AUDITOR – GENERAL TO THE
LIMPOPO PROVINCIAL
LEGISLATURE AND THE COUNCIL
ON GREATER TUBUTSE
MUNICIPALITY**

30 November 2011



AUDITOR - GENERAL

The Accounting Officer
Greater Tubatse Municipality
P.O. Box 206
Burgersfort
1150

30 November 2011

Reference: 60062REG10/11

Dear Sir

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Greater Tubatse Municipality for the year ended 30 June 2011.

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa and section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the Municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.

7. As soon as practically possible after tabling of the annual report before Council you are required to arrange a briefing session between the AGSA team and the whole Council during which the audit report and the way forward is to be discussed.
8. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



Nevhutalu L.M

Senior Manager: Limpopo

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REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE GREATER TUBATSE MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Greater Tubatse Local Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, and the accounting officer's report, as set out on pages xx to xx

Accounting officer's responsibility for the financial statements

1. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa No. 56 of 2003 (MFMA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

2. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
3. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Trade other receivables and trade and other payables

6. The municipality could not provide sufficient appropriate audit evidence to support journal entries of R12 147 845 debited to trade and other receivables and credited to trade and other payables to rectify a prior period error. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, accuracy, existence and valuation and allocation of trade receivables and trade payables.

Revenue

7. The municipality did not recognise commission income in respect of the water services provided on behalf of the district municipality amounting to R3 593 731. Had this revenue been recognised, the effect would have been to increase the revenue for the period by R3 593 731 and to increase the trade and other receivables in the statement of financial position by the same amount.

Assets

8. The transitional provisions for GRAP 17 contained in Directive 4, Transitional provisions for medium and low capacity municipalities, states that during the measurement period, the entity shall retrospectively adjust the provisional amounts recognised to reflect the information obtained about the facts and circumstances that existed on the effective date of the Standard. The municipality has unbundled its infrastructure assets amounting to R384 499 342 as disclosed in note 3 to the financial statements in accordance with the requirements of Standards of Generally Recognised Accounting Practice, GRAP 17, *Property, plant and equipment*. However, the municipality has not made a retrospective adjustment as required by Directive 4. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the valuation and allocation of property, plant and equipment and accumulated surpluses.

Irregular expenditure

9. Section 125(2)(d) of the MFMA requires a municipality to disclose particulars of any material losses and material irregular, fruitless and wasteful and unauthorised expenditure that occurred during the financial year and whether these are recoverable. Expenditure amounting to R5 858 205 were incurred in contravention of the supply chain management regulations and the Preferential Procurement Policy Framework Act. The amount was not disclosed in the financial statements resulting in irregular expenditure being understated by R5 858 205. Furthermore, there was no system in place for the identification and recognition of irregular expenditure. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of irregular expenditure.

Qualified opinion

10. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Greater Tubatse municipality as at 30 June 2011 and its financial performance and cash flows for the year then ended in accordance with South African

Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the MFMA.

Emphasis of matters

Additional matter

I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

11. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages ... to ... and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Presentation of information

11. The reported performance against predetermined objectives was deficient in respect of the following criteria:
- Measures to improve performance were not reported using the a National Treasury guidelines

The following audit findings relate to the above criteria:

13. Measures taken to improve performance are not included in the annual performance report (APR) as a percentage of total number of instances identified where measures taken to improve performance are required in the APR.

Reliability of information

12. The reported performance information was deficient in respect of the following criteria:
- Validity: The reported performance did not occur and does not pertain to the entity.
 - Accuracy: The amounts, numbers and other data relating to reported actual performance have not been recorded and reported appropriately.
 - Completeness: All actual results and events that should have been recorded have not been included in the reported performance information.

The following audit findings relate to the above criteria:

13. All actual results and events that should have been recorded have not been included in the reported performance information

- A numerical sequence check was not performed on the input documents to ensure all input documents have been recorded on the manual system
- Not all input documents are reviewed to ensure completeness of information in the document(s)
- The validity, accuracy and completeness of reported performance against targets could not be confirmed as inadequate supporting source information was provided.

Compliance with laws and regulations

Annual financial statements, performance and annual report

13. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements identified by the auditors were not adequately corrected, which resulted in the financial statements receiving a qualification audit opinion.

Expenditure management

14. The accounting officer did not take reasonable steps to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Procurement and contract management

15. Awards were made to providers who are persons in service of other state institutions in contravention of the requirements of SCM regulations 44. Furthermore the service provider failed to declare that he/she is in the service of the state as required by SCM regulation 13(c)
16. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) and (c).
17. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).

Asset management

18. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets as required by section 63(2)(c) of the MFMA.

INTERNAL CONTROL

19. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

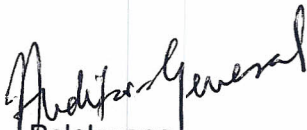
- The accounting officer does not regularly monitor compliance by management with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted.

Financial and performance management

- The financial statements and other information to be included in the annual report are not reviewed for completeness and accuracy prior to submission for audit by the chief financial officer.
- Adequate systems, manual or automated controls are not designed or implemented to ensure that the transactions have occurred, are authorised, and are completely and accurately processed pertaining to the accounting system.

Governance

- The council did not evaluate and assess the effectiveness of the audit committee


Polokwane

30 November 2011



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence